

Chapter 1: Introduction

The Food Stamp Program (FSP) provides assistance to low-income Americans for the purchase of food at authorized stores, farmers' markets, and other locations. The Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA) administers the program in partnership with the 50 States and the District of Columbia. FNS establishes FSP policy, oversees State FSP administration, and directly manages the participation of retailers and financial institutions. State agencies establish procedures, operate data processing systems, and contract for services provided by other government agencies or private organizations. Local food stamp offices (usually operated by State, county, or municipal agencies) process applications and provide other program-related services to food stamp applicants and recipients.

The administration of the FSP is a major expense to FNS and the States. In Federal Fiscal Year (FFY) 2001, the cost of State and local FSP administration was \$4.44 billion (according to estimates computed for this study). The Federal share of this cost was \$2.23 billion, or about 50 percent¹. FNS spent more on FSP administration than on the School Breakfast Program or the Child and Adult Care Feeding Program, including meal costs (FNS, 2005b). During FFY2001, about 7.4 million households participated in the FSP in the average month, so the annual administrative cost was \$597 per household. The total cost of FSP benefits was \$15.55 billion, so the total cost of the FSP was \$19.99 billion, of which administrative costs represented 28 percent. (The cost figures do not include FNS expenditures for federal-level FSP administration.)

Preventing and detecting benefit issuance errors is a major concern of FNS and the States. During the period from 1993 to 2001, the proportion of FSP benefits representing overpayments fell from 8.27 percent to 6.49 percent, and the annual cost of overpayments fell from \$1.82 billion to \$1.01 billion. Although some studies have examined the policies and other factors that contributed to this trend, as discussed in Chapter Four, no prior study has considered the role of administrative spending. This report addresses this gap in the research.

Purpose of Study and Report

This report presents the results of a study of trends in Food Stamp Program administrative costs and errors from 1989 to 2001.² The period was chosen because of the trends in FSP participation, the implementation of welfare reform, and the availability of data.

The study addressed the following research questions:

- What was the total cost of FSP administration during this period, and how did it change with trends in FSP participation, error rates, and other contextual factors?
- What was the contribution of certification and other major functions to the total FSP administrative costs and the trends in costs over the period?

¹ FNS' official estimate of the federal share of FSP administrative costs for FFY2001 is \$2.24 billion, including reimbursements and grants to States, and other FNS expenses. (FNS, 2005a) This estimate is not directly comparable to the estimate for the study, due to differences in methods and sources.

² Abt Associates Inc. conducted this study under ERS cooperative agreement #43-3AEM-2-80099.

- What were the trends during this period in FSP error rates and the variables that might influence them, including caseload characteristics and patterns of administrative actions?
- What was the relationship of FSP certification costs to error rates?

These questions were addressed through three major study components:

- Descriptive analysis of FSP administrative costs, using national and State-level data for 1989-2001
- Descriptive analysis of the patterns and trends of FSP error rates, case characteristics, and case actions over this period
- Modeling of the relationship of reported certification costs to FSP error rates while controlling for caseload characteristics, policies, and economic factors, using State-level time-series data.

This chapter provides background information to place the analyses in context. First, the chapter describes the administrative activities that State and local FSP offices perform. Next, the changes in the FSP during the study period are summarized. The chapter then explains the organization of the rest of the report.

FSP Administrative Activities

The major administrative activities of State and local FSP offices are:

- Certification
- Issuance of benefits
- Automated data processing system development and operations
- Fraud control and fair hearings
- Employment and training
- Nutrition education.

In addition, there are a number of minor administrative activities, some of which are mandatory and others voluntary.

Certification

Certification activities include the processing of initial applications for Food Stamp benefits, periodic recertification of Food Stamp households, and other actions to obtain, verify, and apply information on households' FSP eligibility and entitlement to benefits. These activities are generally performed in local FSP offices by State or local government employees. Local FSP offices usually perform certification tasks for State-administered cash assistance programs (such as Temporary Assistance for Needy Families or TANF and general assistance) and often for medical assistance, low income energy assistance, and other means-tested programs for low-income citizens.

Issuance of Benefits

During the study period, States generally used one of two systems to issue FSP benefits. At the outset of the period, all States issued paper food stamp coupons to recipients, with varying methods and

administrative structures (including State, local and contractor operations). In 1993, Maryland was the first State that entirely replaced the coupon issuance system with an electronic benefit transfer (EBT) system, which are similar to debit card systems. By FY2001, 80 percent of FSP households received benefits via EBT. The nationwide implementation of EBT was completed in 2004. Most States contract with private firms to operate their EBT systems. During the study periods, about one to two percent of FSP households received benefits in cash as a supplement to Social Security Income (SSI) or State aid to elderly or disabled persons.

Automated Data Processing System Development and Operations

Each State operates a computer system to support FSP operations, normally as part of an integrated eligibility system serving the Temporary Assistance to Needy Families (TANF) and other related programs (such as State general assistance, Medicaid, or the Low Income Home Energy Assistance Program). Costs include development of new or upgraded systems, operation of computer centers, data communications networks, and local office equipment.

Fraud Control and Fair Hearings

State and local FSP agencies investigate evidence of fraud by recipients through review of case records, interviews with recipients, and third-party sources of information. Fraud investigations most often involve misrepresentation of eligibility or dual participation, but other types of investigations deal with false reports of lost benefits and trafficking in benefits. When the FSP agency finds evidence of fraud, it may initiate recovery of funds, termination of benefits, or prosecution. FSP agencies conduct fair hearings upon request by applicants or recipients who are subjected to adverse action (benefit reduction or termination).

Employment and Training

Each State provides FSP employment and training (FSET) services for FSP recipients who are subject to job search and work requirements. FSET services are provided through local FSP offices and other agencies. Allowable FSET components include supervised job search, job search training, work experience or workfare, vocational training, work-related education, and self-employment training.

Nutrition Education

States have the option of providing nutrition education to persons who are eligible for Food stamp benefits, with the goal of promoting healthy food and lifestyle choices. Most States have agreements with the State Cooperative Extension Service, State universities, or other agencies to provide food stamp nutrition education (FSNE). FSNE grew from 7 States in FFY 1992 to 49 States in FFY 2001.

Other State and Local Program Administration

State and local FSP agencies carry out a number of other administrative functions, including quality control, management evaluation, outreach, demonstration projects, and oversight of program operations. Under the mandatory quality control (QC) system, each State must review a sample of active FSP cases and a sample of closed or denied cases to determine whether the determination of eligibility and benefits is correct. Each State must also conduct management evaluation reviews of local office operations.

Changes in the FSP, 1989-2001

The FSP changed in a number of important ways during the period from 1989 to 2001. Below we provide a brief overview of relevant welfare reforms, changes in household reporting requirements, developments in FSP automation, and trends in the numbers of participating individuals and households. This discussion is by no means a complete accounting of program changes, but it provides contextual highlights that are particularly relevant to analysis of FSP costs and errors. Additional changes in cost-sharing and State accountability for errors are discussed in later chapters.

Welfare Reform

Although numerous States used federal waivers to change their policies for Aid to Families with Dependent Children (AFDC) in the early 1990's, the most dramatic changes in welfare programs came with the enactment of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). From the perspective of the FSP, the key changes in PRWORA were:

- Replacement of AFDC with the Temporary Assistance for Needy Families (TANF) block grant program
- Requirements for able-bodied adults without dependents (ABAWDs) to work or engage in work-related activity in order to receive more than three months of benefits in a 36 month period
- Denial of eligibility for a large proportion of legal resident aliens
- New requirements and other policies to increase child support establishment and collections.

The TANF provisions were intended to encourage work among welfare recipients and reduce the time that they receive assistance. Assistance became time-limited, with a mandatory lifetime cap of five years and State options to establish shorter time limits. States were also allowed to establish family caps, denying TANF benefits to additional children born to families already receiving TANF. New standards were set for the proportion of TANF recipients to be engaged in employment or related activities. States were authorized to establish work-first requirements and one-time benefit options to divert potential TANF cash applicants, and to adopt more stringent sanctions for non-compliance with work requirements. At the same time, States were also authorized to disregard more of TANF recipient earnings in computing benefits, in order to provide more positive incentives for work.

These policies were critically important to the FSP because of the intertwining between the FSP and AFDC/TANF. In 1989, AFDC was the most common source of income for FSP households, with almost 42 percent having AFDC income. States typically had a single application process administered by a shared workforce for AFDC, FSP, and Medicaid, with AFDC as the primary source of funding. Thus, the implementation of TANF had important implications both for the income sources of FSP recipients and the operation of FSP offices. FSP/TANF recipients faced new requirements to receive cash benefits and a combination of incentives and sanctions intended to encourage them to replace their cash benefits with earnings. The process of implementing TANF directly affected FSP/TANF eligibility workers and more generally brought a renewed emphasis on moving recipients into employment.

State and local FSP agencies also implemented the PRWORA restrictions on food stamp benefits for ABAWDs and legal resident aliens. For ABAWDs, FSP agencies implemented new work requirements and time limits on assistance. Although only about 4 percent of the FSP recipient population was directly affected (Stavrianos and Nixon, 1998), the implementation was challenging because of the complexity of the related rules (Czajka et al., 2001). For legal resident aliens, the PRWORA changes made most ineligible for food stamp benefits, but some States chose to provide State-funded food assistance instead, and subsequent legislation in 1998 and 2002 restored benefits to many of these aliens (FRAC, 2001; Capps et al., 2004).

PRWORA made a number of important changes in child support enforcement (CSE), including mandates for statewide child support collection systems, new sanctions for non-payment of child support, and the establishment of national systems for reporting new hires and locating absent parents.³ These changes did not directly apply to the FSP, but they had indirect effects because of the overlap between CSE and the FSP, both in the populations served and in the agencies operating the programs. In particular, the new sources of information became available to the FSP for income verification.

Two specific provisions of PRWORA were intended to increase payment of child support by non-custodial parents participating in the FSP. One provision allowed States to require FSP recipients to cooperate with child support agencies. (Both AFDC and TANF had this requirement, but previously the cooperation of non-public-assistance FSP recipients was voluntary.) The other provision allowed States to disqualify FSP recipients with child support payment arrears. As of 2003, five States had adopted one or both of these options (FNS, 2003).

Household Reporting Requirements

During the period from 1989 to 2001, there was ongoing evolution in Federal and State policies regarding recertification periods and interim reporting of income by FSP households. A particularly important development was the increasing use of short recertification periods, requiring households to reapply within one to three months of initial approval. Only 4 to 5 percent of FSP households were subject to short recertification periods between 1989 and 1994; starting in 1995, the use of this practice rose steadily to 17 percent of FSP households in 2001.⁴ Several analyses suggested that this practice reduced FSP participation, as discussed below. Beginning in FY2000, States could obtain waivers to adopt quarterly reporting of income instead of monthly reporting, to ease requirements for households required to report changes in circumstances (“simplified reporting”), and to reduce the requirement for in-person reapplication to every 12 months (Rosenbaum, 2000). This initiative was intended to reduce compliance burdens on FSP recipients, to reduce workloads for FSP offices, and to reduce the rate of errors in FSP cases.⁵

³ FSP workers have access to intrastate new hires data but not the interstate data bank.

⁴ Tabulations for these estimates from FSP Quality Control data are discussed in Chapter Four.

⁵ After the study period, the Farm Security and Rural Investment Act of 2002 authorized States to adopt “simplified” reporting rules with reporting intervals of up to six months. Under “simplified” reporting, recipients must report changes in income only at specified intervals or when their countable income exceeds the gross income limit for FSP eligibility. By 2003, there were 35 States with simplified reporting and 4 States with quarterly reporting; only 6 States used monthly reporting (FNS, 2003).

Automated Data Processing Systems

Computer technology evolved rapidly during the study period, and States adopted new technology to improve the accuracy and efficiency of FSP operations. The first computer systems for the FSP (implemented in the 1970's and 1980's) were strictly batch processing systems. Eligibility workers completed paper forms to process applications and updates, and clerks entered the data to be processed on a daily basis. During the late 1980's and more widely during the 1990's, States implemented interactive eligibility systems for FSP, AFDC, and other programs. These systems guided eligibility workers through the application process, prompting for on-line entry of information based on case information and program rules. As of 1995, 21 States were developing or had implemented such systems (Slocum et al., 1995a). Improvements in the speed and cost-efficiency of data communications allowed States to increase their use of computer matching with other agencies' systems as a means for detecting errors and fraud: the average number of systems per State used for matching rose from 7.5 in 1991 to 14.1 in 2000 (Borden and Ruben-Urm, 2002). These improvements were not universal, nor did they occur at the same pace in all States. The last comprehensive assessment of FSP computer systems, published in 1995, found that those systems varied widely in age, capabilities, and level of integration with other programs (Slocum et al., 1995b).

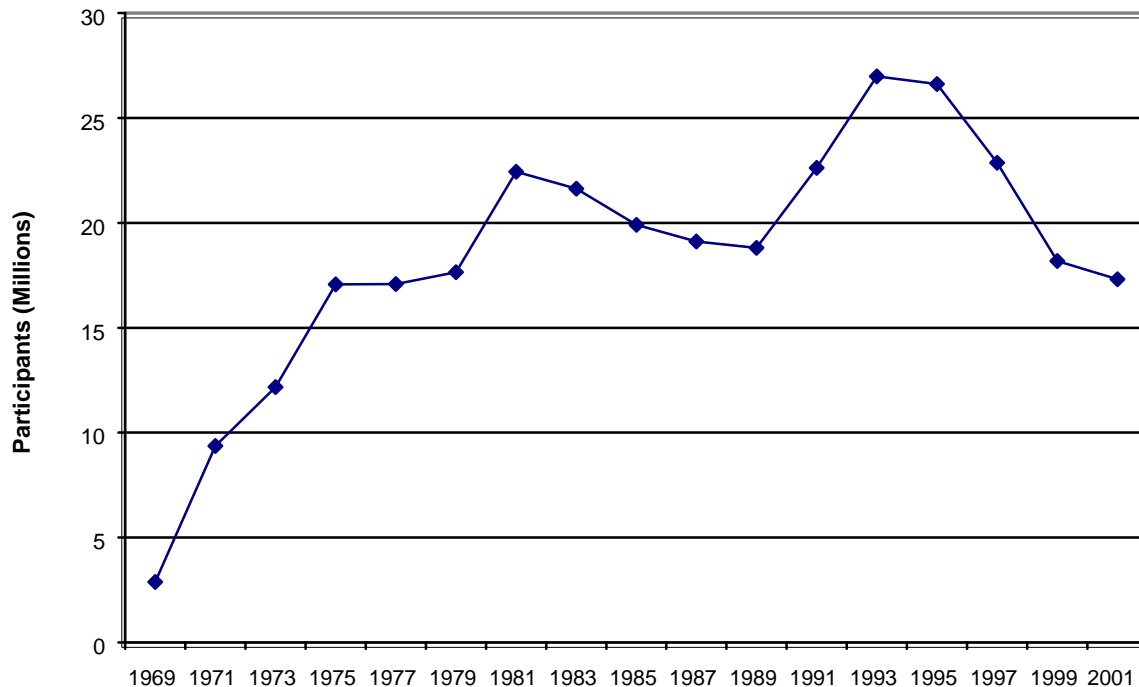
As previously discussed, EBT systems largely replaced paper coupon systems as the primary mode of FSP benefit issuance between 1993 and 2001. This change had the potential to have two different types of impacts on FSP participation. On the one hand, recipients who had difficulty getting and using EBT cards might be more likely to stop participating, and community knowledge of these problems might discourage other eligible households from participating. There were particular concerns about the adaptation of elderly and disabled recipients to the new technology (e.g., issues remembering personal identification numbers needed to use EBT cards). Research conducted for ERS found some evidence of greater initial problems among these groups when they did not receive hands-on training, but no difference in client satisfaction with the EBT system (Kirlin and Logan, 2002). On the other hand, there was hope that using a more mainstream and modern payment technology would reduce the stigma experienced by some FSP recipients when purchasing food. Two studies found evidence suggesting that EBT implementation was in fact associated with increased participation levels (Kornfeld, 2002; Kabbani and Wilde, 2003).

Participation Trends

Over the history of the FSP, there has been a series of cycles of growth and reduction in the numbers of participating individuals and households. Figure 1 shows the long-term history of the number of participants from 1969 to 2001. (Each year's figure is the average monthly number of participants.) The chart shows several periods of growth in FSP participation: 1969 to 1976, 1978 to 1981, and 1988 to 1994. FSP participation declined from 1976 to 1978, again from 1981 to 1988, and most dramatically from 1994 to 2000. Thus, the study period included seven years of rising FSP participation (1989 to 1994, plus 2001) and six years of declining FSP participation.

Figure 1

Average Monthly FSP Participants, 1969-2001



Source: FNS (2002a).

Organization of the Report

Chapter Two describes FSP administrative costs at the national and State levels, including the distribution of costs among the major functions, trends in the costs of certification and other major functions over the study period, and differences in FSP administrative costs among the States. Chapter Three summarizes the changes in the characteristics of the FSP caseload over the study period and the patterns of certification actions, focusing on changes in characteristics that were considered to have potential impacts on certification errors. In Chapter Four, the types and measures of FSP certification error are explained, and the trends and cross-state variation in error rates are summarized. Chapter Five brings together the data on costs, errors, caseload characteristics, and certification actions in a multivariate analysis of the factors affecting error rates. Chapter Six discusses the study's conclusions and limitations.

References and appendices are provided to support the presentation in the report. Appendix A describes the sources and methods for the analysis of FSP administrative costs. Appendix B describes the variation in State FSP administrative costs per FSP household and discusses the potential and challenges of modeling these costs. Appendix C explains technical aspects of the multivariate analysis of factors affecting error rates.